

**ST. TAMMANY PARISH  
WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Annual Financial Statements**

**December 31, 2012 and 2011**

*Under provisions of state law this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and where appropriate at the office of the parish clerk of court.*

Release Date SEP 18 2013

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## **Independent Auditor's Report**

To the Board of Commissioners  
St Tammany Parish Water District No 2  
Covington, Louisiana

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the major fund of St Tammany Parish Water District No 2 ("the District"), a component unit of the St Tammany Parish Government, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the District as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, beginning on page 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013, on our consideration of St. Tammany Parish Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Covington, LA  
April 9, 2013

## **REQUIRED SUPPLEMENTARY INFORMATION**

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Management's Discussion and Analysis**

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The Management's Discussion and Analysis of St Tammany Parish Water District No 2's ("the District") financial performance presents a narrative overview and analysis of the District's financial activities for the year ended December 31, 2012. This document focuses on the current year's activities, resulting changes and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

**Financial Highlights**

The District's assets exceeded its liabilities at the close of fiscal year 2012 by \$1,001,409, which represents a 12% increase from last fiscal year. Of this amount, \$629,561 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.

The District's operating revenue decreased by \$49,909 (or 7%) due to a decrease in water revenue. This decrease is primarily attributable to higher than usual water usage during 2011 due to a severe drought. Operating expenses increased by \$24,564 (or 4%), mainly due to an increase in salaries and repairs and maintenance. As a result, the District had a net operating income of \$40,769 for 2012 as compared to a net operating income of \$115,242 for 2011.

**Overview of the Financial Statements**

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

**Basic Financial Statements**

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statements of Net Position, the Statements of Revenues and Expenses, the Statements of Changes in Net Position, and the Statements of Cash Flows.

The Statements of Net Position present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues and Expenses and the Statements of Changes in Net Position present information showing how the District's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows present information showing how the District's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Management's Discussion and Analysis**

**Financial Analysis of the District**

	2012	2011
Current and Restricted Assets	\$ 939,929	\$ 863,690
Capital Assets, Net	1,122,401	1,154,396
Other Assets	16,812	17,920
<b>Total Assets</b>	<b>2,079,142</b>	<b>2,036,006</b>
Current and Other Liabilities	171,733	170,941
Long-Term Debt Outstanding	906,000	968,000
<b>Total Liabilities</b>	<b>1,077,733</b>	<b>1,138,941</b>
<b>Net Position</b>		
Net Investment in Capital Assets	216,402	224,385
Restricted	155,446	143,857
Unrestricted	629,561	528,823
<b>Total Net Position</b>	<b>\$ 1,001,409</b>	<b>\$ 897,065</b>

*Restricted net position represents those assets that are not available for spending as a result of bond agreements. Conversely, unrestricted net position represents those that do not have any limitations for which those amounts may be used.*

The District's change in net position increased by \$104,344, from December 31, 2011 to December 31, 2012.

	2012	2011
Operating Revenue	\$ 695,783	\$ 745,692
Operating Expenses	655,014	630,450
Net Operating Income	40,769	115,242
Non-Operating Revenue, Net	63,575	58,399
<b>Change in Net Position</b>	<b>\$ 104,344</b>	<b>\$ 173,641</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Management's Discussion and Analysis**

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**Capital Assets and Debt Administration**

**Capital Assets**

As of December 31, 2012, the District had \$1,122,401, net of accumulated depreciation, invested in a broad range of capital assets, including land, rights of way, plant and distribution system, and furniture and equipment (See table below) This amount represents a net decrease (including additions and deductions) of \$31,995, or 3%, under last year This decrease was due to depreciation and deductions in excess of capital asset additions

	2012	2011
Land	\$ 10,561	\$ 10,561
Plant and Equipment	2,411,618	2,346,492
Less Accumulated Depreciation	<u>(1,299,778)</u>	<u>(1,202,657)</u>
<b>Total Capital Assets</b>	<b><u>\$ 1,122,401</u></b>	<b><u>\$ 1,154,396</u></b>

**Debt**

The District had \$968,000 in bonds outstanding at December 31, 2012, compared to \$1,028,000 last year A summary of this debt is shown in the table below

	2012	2011
Revenue Bonds	\$ 223,000	\$ 253,000
Public Improvement Bonds	<u>745,000</u>	<u>775,000</u>
<b>Total Debt</b>	<b><u>\$ 968,000</u></b>	<b><u>\$ 1,028,000</u></b>

**Contacting the District's Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives If you have questions about this report or need additional financial information, contact A J Cigali, General Manager, 19432 Hwy 36, Suite A, Covington, Louisiana 70433



## **BASIC FINANCIAL STATEMENTS**

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Net Position**  
**December 31, 2012 and 2011**

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 534,854	\$ 462,961
Utility Customer Receivables	67,575	65,435
Accrued Interest Receivable	557	557
Accounts Receivable - Other	1,093	3,436
Inventory	22,450	29,405
Prepaid Expenses	966	3,641
<b>Total Current Assets</b>	<b>627,495</b>	<b>565,435</b>
<b>Restricted Assets</b>		
Cash and Cash Equivalents	312,434	298,255
<b>Total Restricted Assets</b>	<b>312,434</b>	<b>298,255</b>
<b>Capital Assets</b>		
Plant and Equipment at Cost, Net	1,111,840	1,143,835
Land	10,561	10,561
<b>Total Capital Assets</b>	<b>1,122,401</b>	<b>1,154,396</b>
<b>Other Assets</b>		
Bond Issuance Cost, Net	16,612	17,720
Utility Deposits	200	200
<b>Total Other Assets</b>	<b>16,812</b>	<b>17,920</b>
<b>Total Assets</b>	<b>2,079,142</b>	<b>2,036,006</b>

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Net Position (Continued)**  
**December 31, 2012 and 2011**

	2012	2011
<b>Liabilities</b>		
<b>Current Liabilities (Payable from Unrestricted Assets)</b>		
Accounts Payable	-	3,496
Accrued Expenses	1,229	3,644
Compensated Absences	13,516	9,403
<b>Total Current Liabilities (Payable from Unrestricted Assets)</b>	<u>14,745</u>	<u>16,543</u>
<b>Current Liabilities (Payable from Restricted Assets)</b>		
Accrued Interest on Bonds	15,432	17,132
Meter Deposits	79,556	77,266
Current Maturities of Bonds Payable	62,000	60,000
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<u>156,988</u>	<u>154,398</u>
<b>Long-Term Debt, Net of Current Maturities</b>		
Revenue Bonds Payable	191,000	223,000
Public Improvement Bonds Payable	715,000	745,000
<b>Total Long-Term Debt</b>	<u>906,000</u>	<u>968,000</u>
<b>Total Liabilities</b>	<u>1,077,733</u>	<u>1,138,941</u>
<b>Net Position</b>		
Net Investment in Capital Assets	216,402	224,385
Restricted	155,446	143,857
Unrestricted	629,561	528,823
<b>Total Net Position</b>	<u>\$ 1,001,409</u>	<u>\$ 897,065</u>

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Revenues and Expenses**  
**For the Years Ended December 31, 2012 and 2011**

	2012	2011
<b>Operating Revenue</b>		
Water Revenue	\$ 634,574	\$ 675,853
Tap and Connect Fees	56,984	65,197
Other Revenue	4,225	4,642
<b>Total Operating Revenue</b>	<b>695,783</b>	<b>745,692</b>
<b>Operating Expenses</b>		
Salaries	240,312	210,369
Depreciation	97,974	96,666
Employee Benefits	69,167	56,536
Repairs and Maintenance	48,722	25,396
Insurance	31,146	38,452
Utilities and Telephone	30,170	30,482
Legal and Professional	23,168	17,357
Payroll Taxes	19,177	23,482
Operating Supplies	18,257	22,075
Truck Expenses	17,642	14,865
Postage and Office Supplies	16,149	22,417
Rent	12,542	12,571
Other	10,071	9,323
Director Fees	9,270	9,600
Parish Assessment Expense	6,480	6,320
System Upgrades	2,552	30,209
Uniforms	1,274	3,272
Travel, Conferences and Conventions	941	1,058
<b>Total Operating Expenses</b>	<b>655,014</b>	<b>630,450</b>
<b>Net Operating Income</b>	<b>40,769</b>	<b>115,242</b>
<b>Non-Operating Revenue (Expense)</b>		
Ad Valorem Revenue	108,922	100,721
Impact Fees	2,400	9,200
Gain on Sale of Capital Assets	-	1,500
Interest Income	1,077	871
Interest Expense	(48,824)	(53,893)
<b>Total Non-Operating Revenue, Net</b>	<b>63,575</b>	<b>58,399</b>
<b>Change in Net Position</b>	<b>\$ 104,344</b>	<b>\$ 173,641</b>

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Changes in Net Position**  
**For the Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Net Position, Beginning of Year</b>	<b>\$ 897,065</b>	<b>\$ 723,424</b>
<b>Change in Net Position</b>	<b>104,344</b>	<b>173,641</b>
<b>Net Position, End of Year</b>	<b>\$ 1,001,409</b>	<b>\$ 897,065</b>

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2012 and 2011**

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers	\$ 695,986	\$ 751,049
Payments to Suppliers	(291,417)	(324,054)
Payments to Employees and Payroll Taxing Agencies	(257,791)	(238,584)
<b>Net Cash Provided by Operating Activities</b>	<b>146,778</b>	<b>188,411</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Net Receipts from Meter Deposits	2,290	5,610
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>2,290</b>	<b>5,610</b>
<b>Cash Flows from Capital Financing Activities</b>		
Principal Paid on Bonds	(60,000)	(59,000)
Interest Paid on Bonds	(49,416)	(53,288)
Proceeds from Ad Valorem Taxes	108,922	100,721
Proceeds from Impact Fees	2,400	9,200
Purchase of Capital Assets	(65,979)	(6,700)
Proceeds from Sale of Capital Assets	-	1,500
<b>Net Cash Used in Capital Financing Activities</b>	<b>(64,073)</b>	<b>(7,567)</b>
<b>Cash Flows from Investing Activities</b>		
Interest Received on Investments	1,077	871
<b>Net Cash Provided by Investing Activities</b>	<b>1,077</b>	<b>871</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>86,072</b>	<b>187,325</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>761,216</b>	<b>573,891</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 847,288</b>	<b>\$ 761,216</b>

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2**  
**COVINGTON, LOUISIANA**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

	2012	2011
<b>Reconciliation of Net Operating Income to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Net Operating Income	\$ 40,769	\$ 115,242
Adjustments to Reconcile Net Operating Income		
to Net Cash Provided by Operating Activities		
Depreciation	97,974	96,666
(Increase) Decrease in Utility Customers Receivable	(2,140)	5,260
Decrease in Accounts Receivable - Other	2,343	97
Decrease (Increase) in Inventory	6,955	(14,200)
Decrease (Increase) in Prepaid Expenses	2,675	(2,675)
(Decrease) in Accounts Payable	(3,496)	(7,668)
(Decrease) in Accrued Expenses	(2,415)	(256)
Increase (Decrease) in Compensated Absences	4,113	(4,055)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 146,778</b>	<b>\$ 188,411</b>

The accompanying notes are an integral part of these financial statements

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The accounting and reporting policies of St Tammany Parish Water District No 2 ("the District") conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes and to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of the District's significant accounting policies.

**Reporting Entity**

The reporting entity for St Tammany Parish ("the Parish") consists of the St Tammany Parish Council ("the Council"), which, as governing authority of the Parish, has oversight responsibility over other governmental units (component units) within the Parish. In accordance with Governmental Accounting Standards Board ("GASB") Codification Section 2100, the District is considered a component unit of the Parish reporting entity because (1) commissioners of the District are appointed by the Council and (2) the District provides water service to residents within the Parish. While the District is an integral part of the Parish reporting entity and should be included within the financial statements of that reporting entity, GASB Codification Section 2600 provides that a component unit may also issue financial statements separate from those of the reporting entity. Accordingly, the accompanying financial statements present information only on the financial operations of the District and do not present information on the Council, the general government services provided by the Council, or on other component units that comprise the St Tammany Parish reporting entity.

**Fund Accounting**

The accounts of the District are organized on the basis of proprietary fund accounting used by governmental entities. The proprietary fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.



**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Basis of Accounting (Continued)**

In accordance with Governmental Accounting Standards Board ("GASB") Statement No 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB No 63, net position is classified into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- a *Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus deferred outflows of resources less, deferred inflows of resources, related to those assets.
- b *Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- c *Unrestricted* - All other net position is reported in this category.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Impact of Recently Issued and Adopted Accounting Pronouncements**

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pro-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure. GASB 62 is effective for periods beginning after December 15, 2011.

The District's adoption of this statement in 2012 did not have any impact on the District's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this statement are effective for financial periods beginning after December 15, 2011. During 2012, the District adopted the statement and restated balances previously referred to as net assets to net position.

**Recently Issued Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of the statement are effective for periods beginning after December 15, 2012. Management does not anticipate that the adoption of this statement will have any impact on the District's financial statements.

**Cash, Cash Equivalents and Investments**

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state of the union, or the laws of the United States. The District may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

The District defines cash and cash equivalents to include cash on hand, demand deposits, and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Utility Customer Receivables**

Utility customer receivables on the accompanying statements of net position are considered to be fully collectible at December 31, 2012 and 2011. Uncollectible amounts are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of an account.

**Capital Assets**

All capital assets of the proprietary fund are recorded at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. Pre-construction costs associated with the development of the water system, which include engineering, legal, and interest costs, are capitalized and will be amortized over their estimated useful lives using the straight-line method. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The following estimated useful lives and methods are used to compute depreciation:

Building	10 - 15 Years	Straight-Line
Plant and Distribution System	40 Years	Straight-Line
Furniture, Fixtures and Equipment	5 - 12 Years	Straight-Line
Software	5 - 10 Years	Straight-Line
Transportation Equipment	5 Years	Straight-Line

Depreciation and amortization expenses amounted to \$97,974 and \$96,666, for the years ended December 31, 2012 and 2011, respectively.

**Inventory**

Inventory is stated at the lower of cost or market using the first-in, first-out method.

**Compensated Absences**

Employees of the District earn annual vacation leave based on the following:

<b>Length of Service</b>	<b>Annual Earned</b>
6 months through 1 Year	5 Days
2 Years through 5 Years	10 Days
6 Years through 20 Years	15 Days
20 Years or more	20 Days

Upon termination of service, employees are paid for unused accrued annual vacation leave. Vacation time is not accumulated from year to year. Unused vacation time is paid on the final paycheck of the year.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Continued)**

Sick leave is earned at the rate of 6 days per year. Before October 2009, employees were allowed to accumulate sick leave up to 60 days. The current policy is that sick leave can only be accumulated up to 12 days, however, any unpaid sick leave accumulated prior to October 2009 can continue to be carried forward.

In accordance with the above, the District has accrued the following for sick leave that has been earned but not taken as of December 31<sup>st</sup>:

	2012	2011
<b>Sick Leave</b>	<b><u>\$ 13,516</u></b>	<b><u>\$ 9,403</u></b>

**Federal Income Taxes**

The District is not subject to federal income taxes in accordance with the Internal Revenue Code ("IRC") Section 115 regarding income of states, municipalities and political subdivisions.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Cash and Cash Equivalents**

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities, plus the federal deposit insurance, must at all times equal the amount on deposit with the fiscal agent. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

At December 31, 2012, the District had \$420,005 in non-interest bearing deposits. These deposits are fully secured from risk by federal deposit insurance. At December 31, 2012, the District had \$439,883 in interest-bearing deposits. These deposits are secured from risk by \$250,000 of federal deposit insurance and \$189,883 of pledged securities held in the name of the fiscal agent bank by a custodial bank that is mutually acceptable to both parties.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

**Note 2. Cash and Cash Equivalents (Continued)**

At December 31, 2012 and 2011, cash and cash equivalents for both current and restricted assets consisted of the following

	2012	2011
Unrestricted	\$ 534,854	\$ 462,961
Restricted	312,434	298,255
<b>Cash on Hand and in Bank</b>	<b>\$ 847,288</b>	<b>\$ 761,216</b>

**Note 3. Restricted Assets**

Resolutions authorizing the issuance of a Waterworks Revenue Bond dated January 7, 1999, for \$500,000, provided for certain restrictions of assets of the District. These requirements have been met as of December 31, 2012 and 2011.

Restricted cash and investments follow

	2012	2011
Revenue Bonds	\$ 86,687	\$ 119,206
Public Improvement Bonds	146,191	101,783
Meter Deposits	79,556	77,266
<b>Total Restricted Assets</b>	<b>\$ 312,434</b>	<b>\$ 298,255</b>

**Note 4. Ad Valorem Taxes**

The District is authorized to levy a special ad valorem tax of 6.00 mills on all property subject to taxation to cover debt service requirements. The proceeds of this ad valorem tax are for the purpose of paying the principal and interest of the outstanding public improvement bonds. The following is a roll-forward of ad valorem funds for the year ended December 31, 2012.

Beginning Cash and Investments	\$ 101,783
Plus: Ad Valorem Receipts	108,922
Subtotal	210,705
Less: Interest Payments on Bonds	(34,514)
Principal Payments on Bonds	(30,000)
<b>Ending Cash and Investments</b>	<b>\$ 146,191</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

**Note 4. Ad Valorem Taxes (Continued)**

Ad valorem taxes attach as an enforceable lien on property as of January 1<sup>st</sup> of each year. Taxes were levied by the District on December 1, 2012. Billed taxes were delinquent on January 1, 2013. Revenues from ad valorem taxes are budgeted for the year received, due to the Board of Commissioners' intentions. The St. Tammany Parish Tax Collector bills and collects the District's ad valorem taxes using the assessed value determined by the Tax Assessor of St. Tammany Parish, Louisiana.

**Note 5. Long-Term Debt**

The following is a summary of bond transactions of the District for the years ended December 31, 2012 and 2011:

	2012	2011
<b>Revenue Bonds</b>		
Bonds Payable at January 1 <sup>st</sup>	\$ 253,000	\$ 282,000
Bonds Issued	-	-
Bonds Retired	(30,000)	(29,000)
<b>Bonds Payable at December 31st</b>	<b>\$ 223,000</b>	<b>\$ 253,000</b>
<b>Public Improvement Bonds</b>		
Bonds Payable at January 1 <sup>st</sup>	\$ 775,000	\$ 805,000
Bonds Issued	-	-
Bonds Retired	(30,000)	(30,000)
<b>Bonds Payable at December 31st</b>	<b>\$ 745,000</b>	<b>\$ 775,000</b>

The following is a description of the bonds of the District for the years ended December 31, 2012 and 2011:

	2012	2011
<b>Revenue Bonds</b>		
\$500,000 Water Revenue Bonds dated January 7, 1999, balance due in annual principal installments of \$11,000 - \$43,000, plus interest payments through September 1, 2018, with interest at rates of 4 10% to 5 90%, collateralized by water revenues	\$ 223,000	\$ 253,000
<b>Public Improvement Bonds</b>		
\$815,000 General Obligation Bonds dated March 1, 2009, due in annual principal installments of \$5,000 - \$65,000, plus semi-annual payments through March 1, 2028, with interest at 4 0% to 7 0%, collateralized by ad valorem taxes	\$ 745,000	\$ 775,000

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

**Note 5. Long-Term Debt (Continued)**

The annual requirements to amortize all bonds outstanding as of December 31, 2012, including interest payments, are as follows

Year Ending December 31 <sup>st</sup>	Revenue Bonds			Public Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 32,000	\$ 12,637	\$ 44,637	\$ 30,000	\$ 32,853	\$ 62,853
2014	34,000	10,909	44,909	35,000	31,149	66,149
2015	36,000	9,039	45,039	35,000	29,378	64,378
2016	38,000	7,023	45,023	35,000	27,803	62,803
2017	40,000	4,857	44,857	40,000	26,303	66,303
2018 to 2022	43,000	2,537	45,537	220,000	105,845	325,845
2023 to 2027	-	-	-	285,000	50,101	335,101
2028	-	-	-	65,000	1,528	66,528
<b>Total</b>	<b>\$ 223,000</b>	<b>\$ 47,002</b>	<b>\$ 270,002</b>	<b>\$ 745,000</b>	<b>\$ 304,960</b>	<b>\$ 1,049,960</b>

**Note 6. Capital Assets**

Capital asset activities for the year ended December 31, 2012, were as follows

December 31, 2012	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
<b>Capital Assets Being Depreciated</b>				
Building	20,060	-	-	20,060
Building Improvements	-	39,432	-	39,432
Machinery and Equipment	1,695,843	-	-	1,695,843
Water Meters	547,923	-	-	547,923
Office Equipment	4,789	4,467	(623)	8,633
Transportation Equipment	69,397	-	-	69,397
Software	8,480	22,080	(230)	30,330
<b>Total Capital Assets Being Depreciated</b>	<b>2,346,492</b>	<b>65,979</b>	<b>(853)</b>	<b>2,411,618</b>
<b>Less Accumulated Depreciation for</b>				
Building	(20,060)	-	-	(20,060)
Building Improvements	-	(1,972)	-	(1,972)
Machinery and Equipment	(965,158)	(44,277)	-	(1,009,435)
Water Meters	(145,824)	(44,663)	-	(190,487)
Office Equipment	(4,789)	(223)	623	(4,389)
Transportation Equipment	(61,355)	(2,981)	-	(64,336)
Software	(5,471)	(3,858)	230	(9,099)
<b>Total Accumulated Depreciation</b>	<b>(1,202,657)</b>	<b>(97,974)</b>	<b>853</b>	<b>(1,299,778)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>1,143,835</b>	<b>(31,995)</b>	<b>-</b>	<b>1,111,840</b>
<b>Total Capital Assets, Net</b>	<b>\$ 1,154,396</b>	<b>\$ (31,995)</b>	<b>\$ -</b>	<b>\$ 1,122,401</b>

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

**Note 6. Capital Assets (Continued)**

Capital asset activities for the year ended December 31, 2011, were as follows

December 31, 2011	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
<b>Capital Assets Being Depreciated</b>				
Building	20,060	-	-	20,060
Machinery and Equipment	1,721,082	6,700	(31,939)	1,695,843
Water Meters	547,923	-	-	547,923
Office Equipment	19,772	-	(14,983)	4,789
Transportation Equipment	107,202	-	(37,805)	69,397
Software	12,883	-	(4,403)	8,480
<b>Total Capital Assets Being Depreciated</b>	<b>2,428,922</b>	<b>6,700</b>	<b>(89,130)</b>	<b>2,346,492</b>
<b>Less Accumulated Depreciation for</b>				
Building	(20,060)	-	-	(20,060)
Machinery and Equipment	(953,457)	(43,640)	31,939	(965,158)
Water Meters	(101,161)	(44,663)	-	(145,824)
Office Equipment	(19,772)	-	14,983	(4,789)
Transportation Equipment	(92,447)	(6,713)	37,805	(61,355)
Software	(8,224)	(1,650)	4,403	(5,471)
<b>Total Accumulated Depreciation</b>	<b>(1,195,121)</b>	<b>(96,666)</b>	<b>89,130</b>	<b>(1,202,657)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>1,233,801</b>	<b>(89,966)</b>	<b>-</b>	<b>1,143,835</b>
<b>Total Capital Assets, Net</b>	<b>\$ 1,244,362</b>	<b>\$ (89,966)</b>	<b>\$ -</b>	<b>\$ 1,154,396</b>

**Note 7. Net Position**

Net position for the years ended December 31, 2012 and 2011, consisted of the following

	2012	2011
<b>Net Investment in Capital Assets</b>	<b>\$ 216,402</b>	<b>\$ 224,385</b>
<b>Restricted</b>		
Restricted for Revenue Bonds	50,474	\$ 46,475
Restricted for Public Improvement Bonds	104,971	59,393
Restricted for Water System Extensions and Improvements	1	37,989
<b>Unrestricted</b>	<b>629,561</b>	<b>528,823</b>
<b>Total</b>	<b>\$ 1,001,409</b>	<b>\$ 897,065</b>



**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 8. Commitments**

The District entered into a ten-year lease for office space commencing on January 1, 2002, with monthly payments of \$966. The District renewed this lease for a five-year term commencing on December 31, 2012, with monthly payments of \$1,268. Rental expense totaled \$11,894 and \$11,592, for the years ended December 31, 2012 and 2011, respectively. The following are the scheduled future minimum rental payments under the new lease:

2013	\$ 15,210
2014	15,210
2015	15,210
2016	15,210
2017	<u>15,210</u>
<b>Total</b>	<b><u>\$ 76,050</u></b>

**Note 9. Water Rates**

The District charged the following water rates to each of its customers based on volume for each of the years ended December 31, 2012 and 2011:

<b>Residential</b>	
First 2,000 gallons	\$ 15 00
Over 2,000 gallons	\$ 2 80 per 1,000 gallons
<b>Commercial</b>	
First 2,000 gallons	\$ 25 00
Over 2,000 gallons	\$ 3 10 per 1,000 gallons

As of December 31, 2012, the District served 1,772 customers.

**ST. TAMMANY PARISH WATER DISTRICT NO. 2  
COVINGTON, LOUISIANA**

**Notes to Financial Statements**

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**Note 10. Board Members' Per Diem Payments**

The following is a schedule of fees paid to board members during the years ended December 31<sup>st</sup>

	2012	2011
Pierre Fabre, Commissioner 73460 Military Road Covington, LA 70435	\$ 1,260	\$ 1,320
Wayne Jacobs, Commissioner 20120 Highway 36 Covington, LA 70433	5,010	4,800
Kathy Nastasi, Commissioner #4 Pipe Loop Covington, LA 70435	1,140	1,200
Glynn Huhn 73482 Military Road Covington, LA 70435	720	1,080
Michael Stubbs 20470 Alexandria Street Covington, LA 70435	1,140	1,200
<b>Total</b>	<b>\$ 9,270</b>	<b>\$ 9,600</b>

**Note 11. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, April 9, 2013, and determined that the following event occurred that required disclosure

During November 2012, the citizens of the District approved, through majority vote in a special election, the authorization of the District to incur debt and issue bonds in the amount of \$985,000. As a result of this election, the District incurred debt and issued bonds for the authorized amount in April 2013.

No subsequent events occurring after the date above have been evaluated for inclusion in these financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

To the Board of Commissioners  
St Tammany Parish Water District No. 2  
Covington, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities and the major fund of St Tammany Parish Water District No. 2 ("the District"), a component unit of the St Tammany Parish Government, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in black ink, appearing to read "LaForte". The signature is stylized with a large, looped "L" and a cursive "aForte".

A Professional Accounting Corporation

Covington, LA  
April 9, 2013